

# State Revenues

Frances Ramírez-Maestas

Director

New Mexico Legislative Education Study Committee

NMASBO Winter Conference

September 15, 2010

# Question

Kara

Paula

Caitlyn

Pablo

Peter

Janet

Tanisha

Clara

Bill

Matt

One student will be chosen at random from the list above. What is the probability that the student's name begins with the letter P?

- A. 1 out of 3
- B. 1 out of 10
- C. 3 out of 7
- D. 3 out of 10

# Question

For a school report, Luke contacted a car dealership to collect data on recent sales. He asked, “What color do buyers choose most often for their car?” White was the response. What statistical measure does the response “white” represent?

- A. Mean
- B. Median
- C. Mode
- D. Range
- E. Interquartile range

# Three Areas of Review

- The Legislative Education Study Committee
- The Appropriation for Public School Support
- The Revenues

# Legislative Education Study Committee (LESC)

- In 1965, New Mexico Legislature had foresight to create the LESC
- Currently the only permanent bicameral, bipartisan interim education committee of a state legislature in the entire country.

# LESC Statutory Authority

To conduct:

- a continuing study of all education in New Mexico;
- the laws governing such education; and
- the **policies and costs** of New Mexico educational system

# 2010 Interim Issues

## September 27-30 Meeting:

- Cohort Graduation Rates
- Elementary Breakfast Program Funding
- Innovative Digital Education & Learning (IDEAL) New Mexico
- P-20 Educational Data System
- Student ID Numbers in Two-year College Data Systems

# Interim Issues Continued

- Dual Credit Program Report
- New High School Exit Exam
- Government Restructuring Task Force
- FY 11 Public School Budgets
- FY 12 Budget Requests of NMPSIA & APS
- Restraint & Seclusion of Students
- LESC School Finance Work Group Report



# LESC Workgroup Objective

To evaluate the adequacy and effectiveness of New Mexico's laws and regulations relating to public school finance, including the financial capacity and controls of school districts and charter schools statewide.

# LESC Workgroup Activities

Review laws, rules & policies governing school finance, including implementation of two provisions in law:

- (1) Require local school boards and charter school governing bodies to create finance & audit subcommittees effective May 19, 2010; and
- (2) allow PED to impose sanctions for failure to submit timely audits to State Auditor (up to 7% SEG & suspend board of finance)

# Other Workgroup Activities

- Licensing and training requirements for school business officials (SBOs)
- Availability of resources, including availability of qualified SBOs & independent auditors
- Internal controls, including segregation of duties
- Capacity: examine supply & demand of SBOs, including capacity at postsecondary to train future SBOs

# Current Workgroup Activity

## Revision of Manual of Procedures for Public School Accounting & Budgeting

- \$50,000 from New Mexico Public School Insurance Authority Board
- Independent contractor(s)
- Draft by end of January or early February
- Final draft for review at School Budget Workshop in March, 2010

# Workgroup Members

- Legislature
  - Senator Cynthia Nava
  - Representative Jimmie C. Hall
  - Representative Rhonda King
- Office of the State Auditor
- NM School Boards Association
- School Board Members
- NM Coalition of School Administrators
- Superintendents
- School District Business Officials

# Additional Workgroup Members

- NM Coalition for Charter Schools
- Charter School Business Officials
- Independent Auditor
- Finance/fraud experts from UNM
- NM ASBO
  - James Murdock, Associate Supt of Finance, Silver Consolidated Schools
- Regional Education Cooperatives
- Public Education Department
- Governor's Office
- LESC and LFC staff

Findings & recommendations to LESC at Dec 2010 Meeting

# LESC Legislative Recommendations

- Policy: changes or new provisions
- Appropriations for public school support, including:
  - State Equalization Guarantee (SEG or **Public School Funding Formula**)
  - Categorical Public School Support
  - Public-education-related appropriations

# The Appropriation for Public School Support



# Building the Appropriation for Public School Support

			FY 05	FY 06	FY 07	
			APPROPRIATION	APPROPRIATION	APPROPRIATION	
Opening the Doors }	1	PROGRAM COST	\$1,802,906.6	\$1,903,074.6	\$2,027,662.3	1
	2	Adjustment for Overprojection of FY 04 Cash Balance Credit	(\$11,600.0)			2
	3	Adjusted Program Cost	\$1,791,306.6			3
	4	ENROLLMENT GROWTH	\$5,200.0	\$14,700.0		4
	5	FIXED COSTS	\$1,900.0	\$2,100.0		5
	6	INSURANCE COSTS	\$19,000.0	\$16,300.0		6
	7	COMPENSATION for Public School Employees: 1.25 percent in FY 06				7
	8	Teachers	\$19,276.0	\$6,252.5		8
	9	Instructional Staff	\$3,531.1	\$2,381.9		9
	10	Other Certified and Non-certified	\$7,991.7	\$5,372.7		10
	11	Annualize FY 04 6.0 percent raise in FY 05 for Teachers & Instructional Staff	\$25,830.5			11
	12	Minimum Salaries – Three-tiered Licensure Structure				12
	13	Levels 2 & 3 to \$35,000 in FY 05	\$8,638.7			13
	14	Levels 2 & 3 to \$40,000 in FY 06		\$51,800.0		14
	15	Minimum Salary – Educational Assistants <sup>1</sup>	\$5,000.0	\$1,900.0		15
	16	Increase in Employer's ERB Contribution (.75 percent)		\$11,780.6		16
	17	Full-day Kindergarten Phase V	\$9,600.0			17
	18	Full-day Kindergarten – Replace TANF Funds		\$4,000.0		18
	19	Student Assessment CRTs/School District Costs	\$1,800.0	\$2,000.0		19
	20	Elementary Fine Arts (Year 3)	\$4,000.0	\$6,000.0		20
	21	PROGRAM COST	\$1,903,074.6	\$2,027,662.3		21
	24	LESS PROJECTED CREDITS	(\$61,000.0)	(\$58,600.0)		24
	25	LESS OTHER STATE FUNDS (from driver's license fees)	(\$1,700.0)	(\$1,300.0)		25
	26	STATE EQUALIZATION GUARANTEE	\$1,840,374.6	\$1,967,762.3		26

# Determination of School District Program Cost

- Educational need based on number of students enrolled and participating in legislatively defined programs:
  - Beginning July 1, 2010 based on standardized dates: second Wednesday in October, December & February
- Cost differentials are applied to reflect the relative costs incurred in providing these programs -- makes individual student needs the focal point of the formula.

# Appropriation Process

- January
  - LESC recommendations for Public School Support
- First week of legislative session House Bill 3, *Education Appropriation Act*, introduced
- House Bill 3, as amended by House Education Committee presented to House Appropriations and Finance Committee and rolled into House Bill 2, *General Appropriation Act*

# Formula dollars

- Appropriated by Legislature
- Budgeted by local school board based on local priorities.

# WHOA...

## Consider Program Cost Reductions

- FY 01 thru FY 11: formula reduced by \$146.8 million in General Fund dollars
- And in FY 10 and FY 11: formula appropriations do **not** include federal ARRA dollars used in formula:
  - \$210.2 million in FY 10; and
  - Nearly \$23.9 million in FY 11

<b>Appropriations</b>	<b>Fiscal Year 2009 <i>Adjusted for Solvency</i></b>	<b>Fiscal Year 2010 <i>Adjusted for Solvency</i></b>	<b>Fiscal Year 2011 (with .544% Sanding)</b>
State Equalization Guarantee (SEG)	\$2,323,983.9	\$2,105,762.2	\$2,268,397.4
Federal ARRA dollars		\$210,200.0	\$23,898.0
"Education Lockbox"	\$35,753.6		
<b>Adjusted SEG Total</b>	<b>\$2,359,737.5</b>	<b>\$2,315,962.2</b>	<b>\$2,292,295.4</b>
<b>Dollar Difference from FY 09</b>		<b>(\$43,775.3)</b>	<b>(\$67,442.1)</b>
<b>Percent Change</b>		<b>-1.9%</b>	<b>-2.9%</b>
<b>Categorical Public School Support</b>	\$159,252.3	\$124,667.0	\$118,210.3
<b>Dollar Difference from FY 09</b>		<b>(\$34,585.3)</b>	<b>(\$41,042.0)</b>
<b>Percent Change</b>		<b>-21.7%</b>	<b>-25.8%</b>
<b>Related Appropriations (including PED Budget)</b>	\$55,450.4	\$45,650.3	\$31,393.3
<b>Dollar Difference from FY 09</b>		<b>(\$9,800.1)</b>	<b>(\$24,057.1)</b>
<b>Percent Change</b>		<b>-17.7%</b>	<b>-43.4%</b>
<b>Grand Total</b>	<b>\$2,574,440.2</b>	<b>\$2,486,279.5</b>	<b>\$2,441,899.0</b>
<b>Dollar Difference from FY 09</b>		<b>(\$88,160.7)</b>	<b>(\$132,541.2)</b>
<b>Percent Change</b>		<b>-3.4%</b>	<b>-5.1%</b>
<b>Unit Value</b>	\$3,871.79	\$3,792.65	\$3,712.45

SOURCE: Department of Finance and Administration FY11 General Fund Tracking, 03/01/2010

# 3.2% Reduction & federal Education Jobs Dollars in FY 11

- \$77 million cut to public schools
- Supplemented with \$65 million from federal Education Jobs to funding formula
- Result is .33 percent decrease statewide to funding formula

# General Fund Recurring Appropriations

	<b>Total</b>	<b>Public Ed</b>	<b>Percent</b>
1990:	\$1.7 billion	\$876 million	50.3%
2005:	\$4.4 billion	\$1.9 billion	45.4%
2009:	\$5.9 billion	\$2.5 billion	43.3%
2010:	\$5.3 billion	\$2.3 billion	43.2%
2011:	\$5.3 billion	\$2.4 billion	45.5%

The diagram illustrates the changes in General Fund Recurring Appropriations over time. It shows a general downward trend in the percentage of public education funding from 1990 to 2010, followed by a slight increase in 2011. The total fund size also shows a downward trend from 2009 to 2011.



# Federal ARRA Dollars in Public School Funding Formula

2010: \$210.2 million

(Result = **2.1% decrease in total funding**)

2011: additional \$23.9 million supplanted

(Result = **1.8% decrease in total funding**)

2012: \$69.4 million still remains to be restored with General Fund dollars

# School Finance Key Terms

- Sufficient (*state constitution*)
- Equitable (*current funding formula*)
- Sufficiency (*proposed formula*)
- Accountability

# Article XII, Section 1

## New Mexico Constitution

To establish and maintain a uniform system of free public schools **sufficient** for the education of, and open to, all the children of school age in the state.

# Public School Funding Formula

- 1974: Public School Finance Act created in law.
- Purpose: to provide **equity** in funding for all students based on wealth of the state rather than property tax wealth of individual districts.

# Formula Studies

- 1996 to evaluate **adequacy** of adjustments since 1974.
- 2005 to examine what constitutes an **adequate** educational program and amount of funding **sufficient** to meet the educational needs of the state's students.

# LESC-endorsed Legislation to Implement New Formula

- Introduced in 2008 and 2009
- Based on 4 factors of student need:
  - Free and reduced lunch
  - English-language learners
  - Mobility
  - Special Education
- Marginal sufficiency: \$350 million
- Legislation included revenue enhancements

# The Revenues

# Where Does the Money Come From?

- General Fund
- Federal Mineral Leasing receipts



# General Fund Revenues

- gross receipts and compensating tax;
- selective sales taxes (alcohol, tobacco, bed tax, gaming, motor vehicle excise);
- corporate & personal income taxes; and
- interest earnings, including distributions from the Land Grant Permanent Fund and
- Severance Tax Permanent Fund and earnings on balances held by the state treasurer.

# Federal Mineral Leasing Receipts

- The federal Mineral Lands Leasing Act (30 USCA 181 et seq.) provides that 50% of net receipts from federal mineral leases on any public domain land located within state boundaries shall be paid to the state where the lands are located.
- receipts are specifically appropriated in law for:
  - annual appropriation to the bureau of geology and mineral resources of the New Mexico Institute of Mining and Technology;
  - annual appropriation to the instructional material fund for the purchase of free instructional materials for school students and for the administration of the fund; and
  - the remainder to the public school fund for distribution to the public schools.

# Land Grant Permanent Fund

Fund is derived from lands given by the United States to the territory of New Mexico in accordance with the Ferguson Act of 1898 and from additional land similarly granted by the Enabling Act of 1910 in anticipation of the conferring of statehood.

# Public School Fund

## Revenues in Fund support:

- State Equalization Guarantee Distribution
- School Transportation
- Supplemental Distributions, including:
  - Out-of-state Tuition
  - Emergency Supplemental
  - Emergency Capital Outlay

# A LOOK AT FY 12

# August LESC Report on July 2010 Revenue Consensus

## FY12 Budget: Current Services Deficit

### Revenue:

- July 2010 Consensus forecast = \$5,430 million

### Appropriations:

- Assume flat budget from FY11 after sanding = (\$5,204 million)
- Need to replace one-time funds in FY11 budget = (\$355 million)
- Need to replace other one-time savings = (\$41 million)
- Total spending needed for current services = (\$5,605 million)
- Shortfall = (\$170 million)

Assumes legislation to extend savings from ERB, RHCA, PERA contributions and use of 50% of tobacco settlement revenue for Medicaid

# LESC Request for Consideration of Federal Funds

REVENUE	Scenario Presented by Dr. Clifford	Scenario Including Other Federal Funds
July 2010 Consensus Forecast	\$5,429.5	\$5,429.5
<b>APPROPRIATIONS</b>		
Assume Flat Budget from FY 11 (after 3.2% Sanding)	\$5,204.0	\$5,204.0
<b>Need to Replace One-time Funds in FY 11 Budget</b>		
Public Schools (ARRA)	\$23.9	\$23.9
Restore FY 10 ARRA Funds		\$45.5
Restore FY 11 EduJobs Funds		\$65.0
Higher Education (ARRA)	\$10.9	\$10.9
Medicaid (HSD & DOH)	\$320.0	\$320.0
<b>Subtotal Replace One-time Funds in FY 11 Budget</b>	<b>\$354.8</b>	<b>\$465.3</b>
<b>Need to Replace Other One-time Savings</b>		
Los Lunas substance abuse treatment center	\$4.0	\$4.0
Ft. Bayard medical center	\$4.0	\$4.0
TANF carry-forward	\$33.0	\$33.0
<b>Subtotal Replace Other One-time Savings</b>	<b>\$41.0</b>	<b>\$41.0</b>
<b>TOTAL SPENDING NEEDED TO MAINTAIN FY 11 LEVEL OF SERVICES</b>	<b>\$5,599.8</b>	<b>\$5,710.3</b>
<b>SHORTFALL</b>	<b>-\$170.3</b>	<b>-\$280.8</b>

# Contact Information

Frances Ramírez-Maestas

Director

Legislative Education Study Committee

State Capitol North, Suite 200

325 Don Gaspar

Santa Fe, New Mexico 87501

Phone: 505-986-4591

Email: [frances.maestas@nmlegis.gov](mailto:frances.maestas@nmlegis.gov)

LESC website: <http://lesc.nmlegis.gov>

